

Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-06 EUR-12 ISO-00 AGR-05 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01

FRB-03 OMB-01 /053 R

DRAFTED BY EB/ICD/TRP:TJO'DONNELL:BLO

APPROVED BY EB:JLKATZ

ARA/LA/BR:RWZIMMERMANN

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R 240903Z APR 76

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMCONSUL RIO DE JANIERO

AMCONSUL SAO PAULO

AMEMBASSY LONDON

AMEMBASSY BOGOTA

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E.O. 11652: N/A

TAGS: ETRD, EAGR, BR

SUBJECT: COFFEE: MESSAGE TO IBC PRESIDENT CALAZANS

1. EMBASSY BRASILIA REQUESTED TO ARRANGE DELIVERY OF FOLLOWING MESSAGE IN ENGLISH AND PORTUGUESE FROM DEPUTY ASSISTANT SECRETARY OF STATE JULIUS L. KATZ TO IBC PRESIDENT CAMILLO CALAZANS DE MAGALHAES. DEPARTMENT HAS NO PLANS TO MAKE MESSAGE PUBLIC. WE ARE INTERESTED IN CALAZANS' REACTION.

2. BEGIN QUOTE: I WANT TO SHARE WITH YOU MY CONCERN OVER THE OUTBREAK OF SPECULATIVE FEVER IN WORLD COFFEE MARKETS. MY CONCERN IS THAT CONTINUED RAPID PRICE INCREASES WILL LEAD SHORTLY TO RETAIL PRICES UNACCEPTABLY HIGH TO CONSUMERS AND
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RESULT IN PERMANENT LOSSES IN CONSUMPTION.

IF GREEN COFFEE PRICES ARE SUSTAINED AT TODAY'S HIGH LEVELS, WE CAN EXPECT RETAIL PRICES IN THE UNITED STATES SHORTLY TO RISE WELL ABOVE DOLS. 2.00 A POUND. THERE IS REASON TO QUESTION WHETHER AMERICAN HOUSEWIVES WILL MAINTAIN THEIR COFFEE CONSUMPTION LEVELS IN SUCH CIRCUMSTANCES. INDEED, IT WOULD NOT BE SURPRISING IF HIGHER RETAIL PRICES ENCOUNTERED STRONG CONSUMER RESISTANCE AND LED TO A SWITCH TO SUBSTITUTES SUCH AS HAPPENED TO SUGAR IN 1975.

THE EFFECT OF A SHARP DROP IN CONSUMPTION COULD BE FAR REACHING. IT WOULD NOT ONLY DIRECTLY AND ADVERSELY AFFECT THE INTERESTS OF THE PRIVATE ROASTING AND TRADING FIRMS IN THE IMPORTING COUNTRIES, BUT WOULD ALSO HAVE A STRONGLY NEGATIVE IMPACT ON THE LONGER TERM ECONOMIC OUTLOOK OF THE EXPORTING COUNTRIES.

THE FUNDAMENTAL SUPPLY/DEMAND SITUATION FOR COFFEE IS WELL KNOWN. IT IS APPARENT THAT SUPPLIES WILL BE RELATIVELY TIGHT FOR THE NEXT SEVERAL YEARS. AT THE SAME TIME, THERE IS NO REASON TO EXPECT A PHYSICAL SHORTAGE OF COFFEE AVAILABLE TO MARKETS. THE PRESENT WAVE OF SPECULATION IS, THEREFORE, UNWARRANTED AND DAMAGING TO BOTH PRODUCERS AND CONSUMERS.

WE HAVE ATTEMPTED IN SEVERAL RECENT PUBLIC STATEMENTS ON THE CURRENT MARKET TO BE HONEST BUT SENSITIVE TO POSSIBLE NEGATIVE EFFECTS. WE HAVE TRIED TO AVOID STATEMENTS OR CONJECTURE WHICH MIGHT EXACERBATE THE SITUATION.

UNFORTUNATELY, THE MARKET IS HIGHLY NERVOUS. IT HAS BEEN OVERREACTING TO RUMORS AND FRAGMENTARY REPORTS SUCH AS THOSE CONCERNING IBC PLANS TO PURCHASE ANGOLAN COFFEE. IT HAS ALSO EXAGGERATED MINOR OR TEMPORARY SETBACKS. WHAT IS NEEDED, IN OUR VIEW, IS FURTHER AND FULLER DISCUSSION OF THE FACTS BY RESPONSIBLE AUTHORITIES.

AS YOU KNOW, PRESIDENT FORD RECENTLY SUBMITTED THE INTERNATIONAL COFFEE AGREEMENT OF 1976 TO THE SENATE AS PART OF OUR RATIFICATION PROCEDURE. WHILE IT IS CLEAR LIMITED OFFICIAL USE

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THAT THE CURRENT PRICE RUNUP IS NOT CAUSED BY THE NEW ICA, AS A PRACTICAL MATTER WE MUST RECOGNIZE THAT THE CONNECTION WILL BE DRAWN. WE ARE THEREFORE CONCERNED THAT EVERYTHING POSSIBLE BE DONE TO DAMPEN THE FORCES OF SPECULATION. I KNOW THAT YOU SHARE OUR CONCERN AND WILL DO WHAT YOU CAN TO ASSIST; WITH ALL BEST WISHES. SINCERELY, JULIUS L. KATZ. END QUOTE. SISCO

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COFFEE, PUBLIC CORRESPONDENCE, PRICE TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE099886
Document Source: CORE
Document Unique ID: 00
Drafter: TJO'DONNELL:BLO
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760156-0739
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760425/aaaaauyx.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 17 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 MAY 2004 by BoyleJA>; APPROVED <10 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COFFEE: MESSAGE TO IBC PRESIDENT CALAZANS
TAGS: ETRD, EAGR, BR, XX, IBC, (KATZ, JULIUS L), (CALAZANS)
To: BRASILIA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006